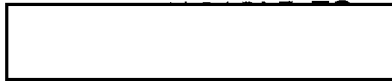


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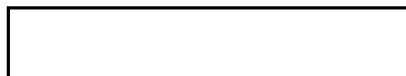
## BIWEEKLY REPORT

# SINO-SOVIET BLOC ECONOMIC ACTIVITIES IN UNDERDEVELOPED AREAS

EIC WGR 1/150  
6 November 1961

PREPARED BY THE WORKING GROUP  
ON SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS

ECONOMIC INTELLIGENCE COMMITTEE



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Summary of Events  
20 October - 2 November 1961

Although it has been frequently reported that construction of the Aswan High Dam is considerably behind schedule, it is too early to make any forecast about the final outcome on the basis of work already completed.

Further Bloc involvement in Malian civil aviation is indicated by recent departures of trainees to Czechoslovakia and the USSR. Most of the 15 Soviet military advisers who recently arrived in Mali will be working in the headquarters of the Malian army.

Rumania has extended a credit of \$50 million to Indonesia for the development of crude oil production by Permina, a government-operated Indonesian oil company. The Chinese Communist credit of \$30 million will be utilized for the establishment of six spinning plants and seven weaving mills.

Some deliveries of Soviet materiel purchased under the Soviet-Indonesian arms agreements of 1960-61 have already been made. The tempo of these deliveries probably will be increased during the next few months.

Ceylon is finally making progress toward implementing the economic programs established under outstanding Bloc credits. A tire factory and a textile mill have been recently obligated under the Soviet and Chinese Communist credits of 1958. In addition, the establishment of a state-owned steel corporation is expected to assist in the implementation of the Soviet rolling mill project.

Burmese negotiations with the USSR for tractors have been unsuccessful. This development follows a similar Burmese failure to obtain agricultural equipment from Communist China under the January credit of \$84 million.

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The USSR has adopted a new customs tariff that establishes minimum duties on imports from countries that grant most-favored-nation treatment to Soviet exports. Although this tariff schedule ostensibly imparts an additional flexibility to the Soviet foreign-trade monopoly, the probable purpose of the new tariff is to obtain concessions from the new economic groupings in Western Europe.

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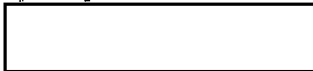
SINO-SOVIET BLOC ECONOMIC ACTIVITIES  
IN UNDERDEVELOPED AREAS\*

I. General (Significance of the New Soviet Tariff Schedule)

At the end of September the Council of Ministers of the USSR announced that a new customs tariff would become effective on 1 October. The tariff schedule contains maximum and minimum ad valorem rates on goods imported into the USSR. The minimum rates range from duty-free (chiefly for producer goods) to 25 percent for certain food products and selected manufactured consumer goods. The minimum duties are to be applied to goods originating in or imported from countries that grant most-favored-nation treatment to Soviet exports. The maximum rates, ranging from 5 to 70 percent, are to be applied to goods originating in or imported from those countries that do not grant such treatment.



The previous Soviet tariff schedule, last revised in 1954, contained both ad valorem and specific rates. Import duties ranged from duty-free for certain basic food products and 1 percent on capital goods to several hundred percent for such luxury items as watches. No mention is made in the current schedule of the preferential rates contained in the previous schedule for goods originating in certain Asian countries such as Afghanistan, Iran, and Mongolia and for goods entering through the port of Murmansk. Although it is not specifically stated, the new tariff schedule presumably supersedes the old and contains no such preferential provisions.



At the outset of the Soviet regime, reliance on a system of high protective tariffs was rejected by Lenin in favor of a monopoly system as the only certain way to protect the Soviet planned economy against the encroachment of foreign competition and the world market. The foreign trade monopoly rather than the price mechanism was assigned

\* Although the main emphasis of the Biweekly Report is on economic activities of the Sino-Soviet Bloc in underdeveloped areas of the Free World, significant Bloc activities of this nature in areas not considered underdeveloped also will be discussed.

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the task of determining the kinds and amounts of commodities to be bought abroad in accordance with Soviet domestic requirements. The monopoly also selected the supplying country on the basis of cost to the economy, price, and quality as well as on the basis of political considerations. A protective tariff system designed to provide a comparable degree of insulation for the Soviet economy would have required import duties so high as to be virtually prohibitive. Such high protective duties would have invited retaliation by foreign countries against Soviet exports, thereby reducing Soviet earnings of foreign exchange needed to purchase the imports required to meet economic goals.

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The significance of the Soviet system of tariffs, which supplements the monopoly of foreign trade, appears to be in the additional flexibility that the system ostensibly imparts to the Soviet foreign-trade monopoly. It is noteworthy that the new Soviet tariff revision was promulgated coincident with the current campaign of the USSR to obtain concessions in its negotiations with members and potential members of the new economic groupings in Western Europe. The offer of most-favored-nation treatment for the exports of these countries to the USSR in exchange for equal tariff treatment is, in fact, an empty gesture because the USSR, through the medium of its import monopoly, can decline to purchase a country's exports without violating the most-favored-nation clause.

25X1 [REDACTED]

25X1 [REDACTED]

In July, Hungary adopted a new tariff schedule stipulating that minimum duties are to be applied to countries that extend to Hungary the most-favored-nation principle. On a commodity basis, however, significant differences between the charges imposed on most-favored-nation and other suppliers appear only for commodities that are not ordinarily purchased in the Free World. Although the probable purpose of the new Hungarian schedule (and the new Soviet tariff) is to obtain concessions from the new economic groupings in Western Europe, Hungary's considerable dependence on the Free World for many imports precludes actual discrimination except in the case of less important commodities. The leverage available to Hungary in its negotiations with the economic communities of Western Europe -- and, by implication, the leverage available to the other European Satellites that are dependent on imports

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from Western Europe -- is, accordingly, minimal. Furthermore, like the USSR with its new schedule, Hungary can escape the reciprocity feature of the most-favored-nation clause simply by refusing to purchase the exports offered by a country of the Free World with which it has an agreement. [REDACTED]

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II. Middle East (Status of Construction on the Aswan High Dam in Egypt)

Recent reports about progress on the Aswan High Dam generally have followed one of two approaches, both of which are inaccurate. It has been frequently reported that the project is considerably behind schedule because of frequent breakdowns and shortages, mismanagement, and problems arising from the conflict of nationalities. On the other hand, it also has been occasionally reported that work is progressing satisfactorily with only isolated and fortuitous delays. Analysis of available data indicates that neither of these assessments is correct.

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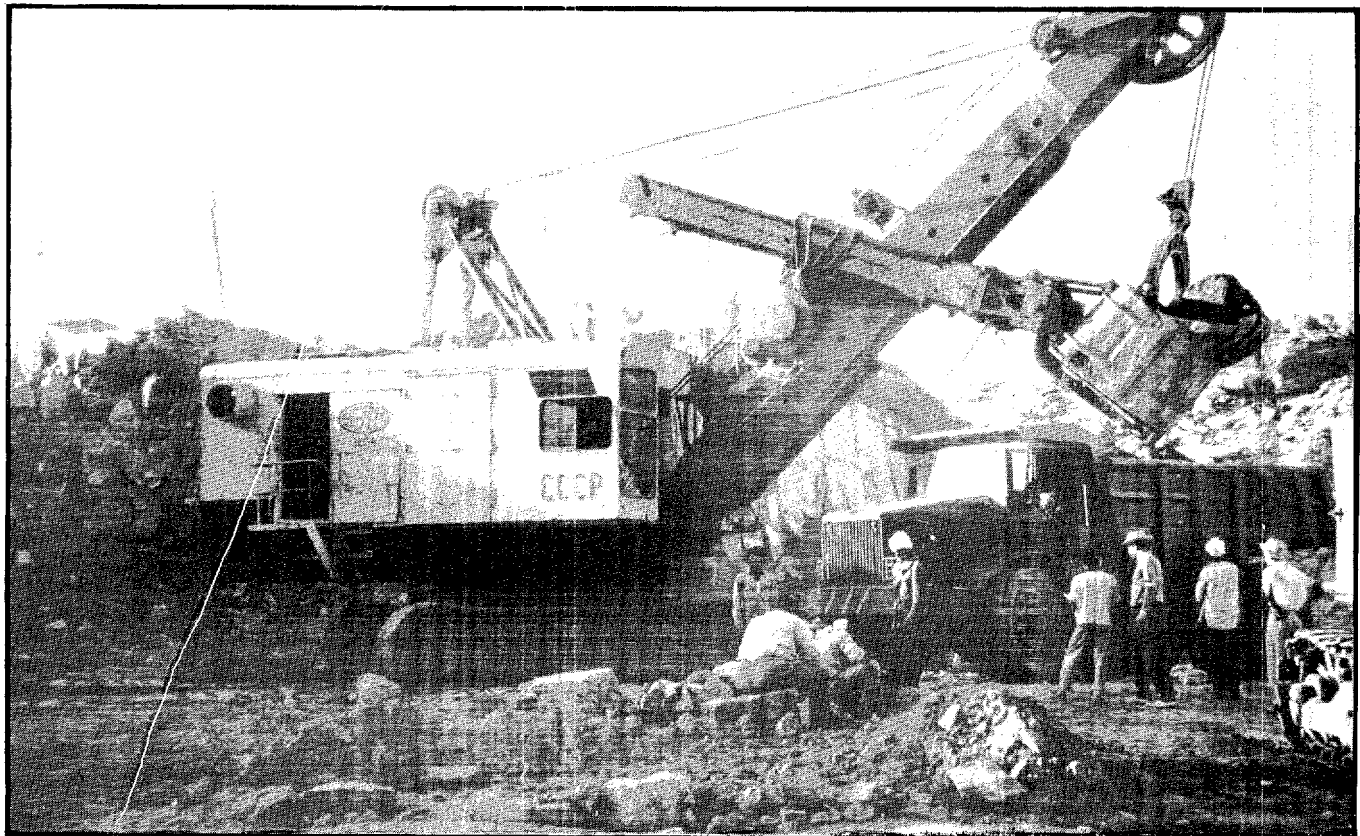
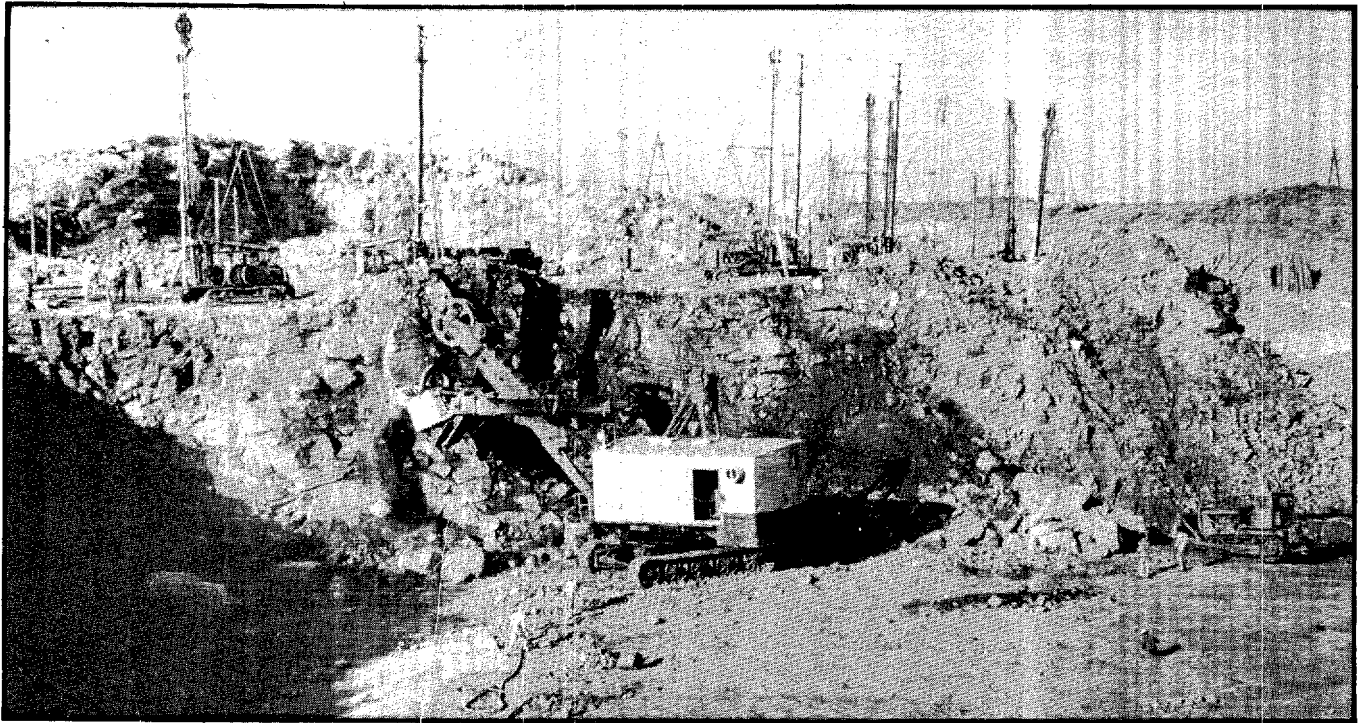
Any judgment that the Aswan High Dam is significantly behind schedule implies that a detailed progress schedule has been compared with actual accomplishments, whereas no such document is available. Actually, work on a project of this nature proceeds on a concurrent basis as rapidly as convenient rather than step by step. Normally, the excavation is started with a few machines, \* and the number is gradually increased as the work areas are enlarged. At the present stage in the construction of the Aswan High Dam, there is no reason to believe that more construction equipment will not soon be employed and the new phases of work begun. [REDACTED]

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The allegation that the present status of construction is behind schedule rests on the apparent assumption that the first stage, which is to be completed in 4 years, should be one-half completed by the end of 2 years, or by mid-1962. The rate of progress on large construction projects, however, does not follow a straight-line progression but instead follows a curve that rises slowly during the first quarter of

\* See the photographs, following p. 3.

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**Egypt: Aswan High Dam**

Soviet 4-Cubic-Meter Electric Shovels Excavating Diversion Channel  
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